

Strategic Objective
Increased Central American Competitiveness in Global Markets, 596-005

USAID will support Central American efforts to increase the region's trade competitiveness and readiness to participate in sub-regional, hemispheric, and global markets. Increasing the potential for expanded trade contributes to higher levels of employment and incomes and supports the region's sustainable development objectives. USAID's current Central American regional trade project, the Program Supporting Central American Participation in the Free Trade Area of the Americas (PROALCA), focuses on growth by targeting the trade development aspect of the USAID regional development program. In this follow-on program (PROALCA II) USAID, in partnership with the Central American Ministers of Foreign Trade and Labor and the Secretariat for Central American Economic Integration (SIECA), seeks to increase regional competitiveness through programs that facilitate regional involvement in trade regimes, i.e., the World Trade Organization (WTO) and Free Trade Area of the Americas (FTAA); support Central American integration; and strengthen some of the elements of economic and trade infrastructure (energy, customs, roads). This \$20 million program works at the policy level of economic infrastructure and responds both to USAID's Agency-wide goal of broad-based economic growth and to Central America's pursuit of an outward-looking, export-led strategy as the best way to achieve rapid, sustainable, and equitable economic growth.

USAID and the Central American governments have had success in areas such as trade openness (tariff reduction, regional and bilateral free trade agreements, levels of imports from the United States, and increases in intra-regional trade), expanded adoption of Intellectual Property Rights (IPR) laws, protection of workers' rights, and advances in energy and telecommunications. Under the new strategy, the Mission will continue working in most of these areas. Direct beneficiaries are people in Central American countries.

The strategic objective will be achieved by: **(1) Promoting more open trade and investment policies**, which will permit Central America to take fuller advantage of greater trading opportunities presented by an increasingly integrated world economy. Trade expansion requires that Central America increase its access to outside markets, and thereby the demand for its products, through the negotiation and implementation of reciprocal bilateral and multilateral free trade agreements. This means full compliance with the commitments made by each of the countries upon joining the WTO in 1995 and the yet-to-be defined requirements under the FTAA. To implement these actions, trade negotiators and administrators need to be trained. While Central America has a number of highly qualified trade experts, the numbers fall far short of what is needed. Moreover, while public support for increased trade has grown in recent years permitting the gains to date, a much broader base of support will be needed to overcome protectionist objections and further reduce trade barriers. Further actions are needed in the increasingly more complicated areas of Intellectual Property Rights (IPR), and new challenges in Customs in the areas of FTAA Business Facilitation Measures and other Customs procedures, as well

as the regional Customs Union require concentrated and coordinated policy and technical work at both national and regional levels.

(2) Accelerating Central America's own process of WTO-consistent, regional economic integration, making the region as a whole a more efficient competitive economic unit through the elimination of the remaining barriers to intra-regional trade and investment flows. This will create a market more attractive to regional and outside private investors. It will also facilitate Central American negotiation of free trade area agreements, as well as other trade concessions, more easily obtained as a region rather than on a bilateral basis.

One of the greatest disincentives to intra-regional trade is the absence of effective mechanisms for solving trade disputes. The creation of adequate mechanisms to handle these disputes is therefore a necessity.

Creation of a regional Customs Union is also a major priority. This initiative seeks ultimately to eliminate customs checks for all goods passing between any two countries. Important first steps in the areas of changes in regional trade regulations and the establishment of a warehouse union between El Salvador and Honduras will be built upon in the coming years as the region moves towards a Customs Union.

(3) Supporting efforts to improve the functioning of regional labor markets while strengthening the protection of core labor standards. Enhanced competitiveness in global markets requires that Central America improve the functioning of its labor markets while also strengthening the protection of core labor standards. Improved labor-management relations are essential to achieve the total quality production required by a global marketplace. Moreover, satisfactory protection of core labor standards is necessary to maintain access to important markets. In addition, for Central America to take maximum advantage of the increased opportunities presented by more integrated regional and global markets, its labor force must be better trained and more productive and its labor laws and regulations must be harmonized. Also, rigidities in the region's labor market must be addressed by allowing for flexibility and sufficient labor mobility to permit the timely and voluntary reallocation of workers to newer and more competitive economic activities. To achieve this result, the following interventions will be promoted: (a) labor ministries' capacity enhanced, (b) competitiveness of the region's labor force increased, and (c) harmonization of labor laws and regulations in the region.